Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-12 IO-14 ISO-00 STRE-00 AGRE-00
CEA-01 CIAE-00 COME-00 DODE-00 FRB-01 H-02 INR-10
INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-02 CTME-00
AID-05 SS-15 STR-07 ITC-01 TRSE-00 ICA-20 SP-02
SOE-02 OMB-01 DOE-15 /148 W
------------------002254 291037Z /16
R 290953Z AUG 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC 0770
INFO AMEMBASSY BANGKOK
AMEMBASSY CANBERRA
USMISSION GENEVA
AMCONSUL HONG KONG
AMEMBASSY MANILA
AMEMBASSY PARIS
AMEMBASSY SEOUL
AMEMBASSY SINGAPORE
AMEMBASSY TAIPEI
AMEMBASSY WELLINGTON

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USMTN
USOECD
DEPT. ALSO PASS STR ELECTRONICALLY

E.O. 11652: NA
TAGS: ETRD, JA
SUBJECT: EFFECTS OF YEN APPRECIATION
ON JAPANESE ECONOMY.

REF: TOKYO 12303

1. SUMMARY. PRESS REPORTS INDICATE THAT JAPANESE
EXPORTERS ARE FEELING THE EFFECTS OF YEN APPRECIATION.
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INCREASED DOMESTIC DEMAND AND CHEAPER IMPORTED MATERIALS
HAVE SUSTAINED OVERALL CORPORATE PROFITABILITY, BUT FOR
EXPORT-DEPENDENT FIRMS PROFITS ARE BEING SQUEEZED AND
SOME SMALL MANUFACTURERS ARE IN TROUBLE. PUBLIC AND
GOVT CAMPAIGNS TO FORCE BUSINESS TO PASS GAINS FROM
APPRECIATION ON TO CONSUMERS ARE BEING STEPPED UP.
MAJOR UTILITIES WILL GIVE SMALL REBATES TO CONSUMERS

AND LOWER RATES. WHOLESALE PRICES HAVE FALLEN FOR NINE CONSECUTIVE MONTHS. EXPORTS HAVE DECLINED FOR SOME KEY INDUSTRIES, AND IMPORTS ARE UP. END SUMMARY.

2. THE JAPANESE PRESS HAVE RENEWED SPECULATION ABOUT THE ECONOMIC CONSEQUENCES OF THE HIGH YEN AS THE YEN CONTINUES TO TRADE ABOVE TO 200 TO ONE DOLLAR MARK. JAPAN'S ECONOMIC PLANNING AGENCY, BANKS, AND OTHER PUBLISHERS OF ECONOMIC PROJECTIONS HAVE TAKEN A DECIDEDLY PESSIMISTIC VIEW OF EXPORT PROSPECTS. THE SUMITOMO BANK REVIEW REPORTED THAT "200 YEN TO ONE DOLLAR IS FAR BEYOND THE (COMPETITIVE) ABILITY OF THE JAPANESE EXPORT INDUSTRY." WHILE EXPORT PROSPECTS LOOK BLEAK, THE POPULAR PRESS NOTES THAT OVERALL BUSINESS PROFITS ARE BEING SUSTAINED BY INCREASED DOMESTIC SALES AND LOWER IMPORTED MATERIALS COSTS. EXPORT PRODUCTS WITH HIGH IMPORT CONTENT HAVE BEEN ABLE TO MAINTAIN THEIR COMPETITIVENESS AS HAVE OTHER TECHNOLOGICALLY ADVANCED PRODUCTS.

3. THE PRESS REPORTED THAT DECLINING YEN PROCEEDS IN INTERNATIONALLY COMPETITIVE BUSINESSES ARE ENOUGH TO REDUCE EXPECTED PROFITS AND WILL FORCE SOME MARGINAL PRODUCERS OUT OF BUSINESS, FOR EXAMPLE, FLATWARE AND CHINA. A RECENT GOJ SURVEY INDICATED THAT MANY BUSINESSES HAVE EXPERIENCED A DECLINE IN EXPORT CONTRACTS AND THAT MANY SMALL INDUSTRIAL BUSINESSES CANNOT REMAIN

COMPETITIVE WITH THE YEN-DOLLAR RATIO ABOVE 220.

4. EDITORIAL WRITERS AND COMMENTATORS HAVE ALSO BECOME MORE ACTIVE IN CALLING FOR THE REDUCTION OF PRICES AND THE PASSING ON TO CONSUMERS OF BENEFITS ACCRUING TO IMPORTERS AND TRADING COMPANIES FROM THE YEN'S INCREASED PURCHASING POWER. ESPECIALLY TARGETED HAVE BEEN UTILITIES BECAUSE OF HUGE YEN PROFITS GAINED WHEN PURCHASING OIL, GAS, AND URANIUM WITH DOLLARS. HOWEVER, IMPORTED AUTOMOBILES, FOODS, LIQUOR, BEER, CIGARETTES, AIR FARES, INTERNATIONAL TELEPHONE RATES AND LUXURY ITEMS HAVE COME UNDER PRESS SCRUTINY FOR LOWER RETAIL PRICES.

5. THE GOJ, REPORTS SAID, WILL SOON ORGANIZE AN INTER-AGENCY TASK FORCE TO MONITOR RETAIL PRICES OF IMPORTS AND, THROUGH "ADMINISTRATIVE GUIDANCE," REQUEST THAT SOME BENEFITS BE PASSED TO CONSUMERS. THE MINISTRY OF AGRICULTURE, FORESTRY, AND FISHERIES IS SAID TO HAVE BEGUN PRESSURING FOOD DISTRIBUTORS OF TEA, CHEESE, COFFEE, FEEDS, AND BEER TO LOWER RETAIL PRICES. THESE FIRMS, IN TURN, HAVE COMPLAINED THEY SHOULD NOT BE

SINGLED OUT WHEN THE LARGEST PROFITS ARE BEING MADE
BY MEAT AND WHEAT IMPORTERS. SOME LARGE JAPANESE FOOD
PROCESSERS ARE REPORTEDLY STUDYING POSSIBILITIES OF
MOVING THEIR OPERATIONS OVERSEAS TO OBTAIN THE MAXIMUM
BENEFITS OF THEIR STRONG YEN. SEVERAL ELECTRICAL
UTILITIES HAVE ALSO AGREED TO LOWER RATES AND TO REFUND,

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IN A LUMP SUM, GAINS ACCRUED DURING THE PAST YEAR.
HOWEVER, THE NET AMOUNT WILL BE LOW 200-400 PER HOUSEHOLD
PER MONTH.

6. PRESS REPORTS THAT THE APPRECIATION OF THE YEN IS
BEGINNING TO BE FELT THROUGHOUT THE JAPANESE ECONOMY
ARE BECOMING MORE NUMEROUS. WHOLESALE PRICES HAVE
FALLEN FOR NINE CONSECUTIVE MONTHS. EXPORTS HAVE ALSO
DECLINED AND ONE REPORT SAID THAT MITI MAY RECIND
"GUIDANCES" TO EXPORTERS REQUIRING THEM TO HOLD 1978
EXPORT LEVELS TO 1977 LEVELS OR BELOW. SOME EXPORT
PRODUCTS, SUCH AS AUTOMOBILES, WILL NOT ATTAIN THOSE

LEVELS THIS YEAR. THIS HAS LED TO REPORTS THAT THE
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SLOWDOWN IN EXPORTS MAY BE ANOTHER FACTOR HINDERING JAPANESE EFFORTS TO ATTAIN ITS 7 PCT ECONOMIC GROWTH TARGET. IMPORTS ARE REPORTED TO BE INCREASING, BUT AT A RELATIVELY SLOW RATE WHICH IS PARTIALLY EXPLAINED BY IMPORTER EXPECTATIONS THAT THE YEN WILL CONTINUE TO APPRECIATE. THERE IS A RELUCTANCE TO MAKE PURCHASES NOW THAT MAY SOON BECOME CHEAPER. OFFSETTING THIS ARE REPORTS THAT INVENTORIES ON MANY IMPORTED PRODUCTS SUCH AS LUMBER AND LOGS ARE REACHING NEW LOWS. THESE WILL HAVE TO BE REPLENTISHED SOON IF PRODUCTION IS TO REMAIN STABLE. MANSFIELD

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